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March 16, 2009

AGENDA ITEM 10a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Global Equity Delegation for Manager Development Program (MDP) and Emerging Manager Fund of Funds

II. PROGRAM: Global Equity

III. RECOMMENDATION: Combine the policy ranges for MDP and Emerging Manager Fund of Funds into one policy range for emerging managers. Wilshire Associates' opinion letter is shown in Attachment 1.

IV. ANALYSIS:

Background

At its April 16, 2007 meeting, the Investment Committee approved the Global Equity Consolidated Delegation. A copy of the delegation is shown in Attachment 2.

At its September 10, 2007 meeting, the Investment Committee approved the Statement of Investment Policy for Global Equity Sub-Asset Class Allocation Ranges. A copy of this policy is shown in Attachment 3.

The Global Equity delegation and sub-asset class allocation policy provide for policy ranges for the Manager Development Program (MDP) and Emerging Manager Fund of Funds (EMFF), as a percentage of total Global Equity assets, as shown in the table below. Percentage and dollar amounts as of 12/31/08 are also included.

Global Equity Sub-Asset Class	**SIO Policy Range**	***Allocation as of 12/31/08***	***Dollars as of 12/31/08***
Manager Development Program	1% - 5%	*2.1%*	*$1.5 billion*
Emerging Manager Fund of Funds	0% - 0.75%	*0.6%*	*$430 million*

The MDP and EMFF are both programs designed to access small and emerging external managers, with less than $2 billion in assets under management, in order to enhance the expected return of CalPERS' global equity investments and to diversify CalPERS' overall equity program. MDP, incepted in June 2000, provides venture capital and investment assets to small and emerging managers in exchange for a meaningful but minority equity stake in those firms. The EMFF program, incepted in February 2008, is comprised of fund of funds managers who assemble a portfolio of small and emerging managers for CalPERS. No equity stake is involved in the EMFF program and the funding to individual underlying managers tends to be less than the funding provided to individual managers in the MDP.

Although the allocations to MDP and EMFF are small, a large percentage of Global Equity assets are allocated to internally managed passive and structured portfolios, as well as to risk managed absolute return and corporate governance strategies. MDP and EMFF currently comprise 9.3 percent and 2.7 percent, respectively, of externally managed portfolios, excluding Risk Managed Absolute Return Strategies (RMARS) and corporate governance portfolios.

<u>Combined Delegation</u>

Staff is recommending that the policy ranges for the two emerging manager programs be combined into one policy range of 1percent to 5 percent for emerging managers. Combining the two will give staff more flexibility to fund emerging managers in one program or the other as opportunities arise in different market environments. It will also decrease the number of smaller allocations in the Global Equity delegation and sub-asset class allocation ranges policy. The 5 percent upper bound, which may be exceeded with the approval of the Chief Investment Officer, equates to about 20 percent of externally managed assets, excluding RMARS and corporate governance portfolios.

If the Investment Committee approves the recommendation, there will be more room to allocate additional assets to the EMFF as this program is nearer the top of its range. However, any additional allocation would depend on the performance results of the program, as well as the relative opportunities present in the MDP and the EMFF programs. The annual review of the EMFF is scheduled for April 2009. The annual review for MDP is scheduled for June 2009.

This combined delegation would not include emerging managers or emerging fund of funds in the RMARS program, as RMARS is a separate delegation and sub-asset class.

V. STRATEGIC PLAN:

This agenda item is consistent with Strategic Plan, Goal VIII, to manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

Combining the policy ranges for MDP and EMFF into a broader category of emerging managers decreases the number of small allocations in the global equity delegation and provides more flexibility for funding emerging managers as opportunities and market environments differ. There are no costs associated with this recommendation.

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